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C O R R E C T E D C O PY (SIPDIS)

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TAGS: ECON EFI PGOV BE
SUBJECT: LETERME GOVERNMENT AGREEMENT: THE ECONOMICS

Summary

¶1. The Leterme government agreement concluded this eek contains many good intentions (e.g. a 2009 budget surplus), but very few specific policies on how to achieve these goals. On several issues, the coalition partners agree to disagree and kick the issue down the road by ordering yet another study (e.g. on the nuclear moratorium). It appears as if after almost nine months of non-stop negotiations, the federal government was unable to address pressing economic realities such as energy supplies, rising commodity prices, the impact of the financial crisis and economic migration. End summary.

Budgetary vagueness

¶2. On the budget front, the new government estimates a 1.9 real economic growth for this year, but with only on a 1.37 percent increase in nominal government spending. The aim of the Leterme government is to achieve a slight surplus in 2009, reaching a surplus of 1 percent of GDP by the theoretical end of the government in 2011. However, nowhere does the GOB say how it intends to reach this goal, whether through tax increases or budget cuts, or a mixture of both.

Increased social security allowances

¶3. Several social security allowances (such as unemployment benefits and pensions) will be increased, most notably by indexing a number of benefits in the social sector (but starting only in 2009) and allowing for a thirteenth month in the child benefit program. These family allowances will continue to be tax free and not means-tested. The new coalition partners decided at the last minute to cancel a further reduction of the number of current tax scales from five to three, a move that would have favoured the low-and middle incomes. Allegedly, the cost of this operation (13 billion euros annually) could not be recuperated elsewhere (e.g. by cutting the number of civil servants, as the liberal parties had suggested.) Instead, the text refers to an agreement to continue reducing taxes, without any further specifics.

More jobs for a partly saturated labor market

¶4. On the labor market front, the Leterme government -like its Verhofstadt predecessor - aims to create 200,000 new jobs. There are no specifics on what kind of jobs will be created and in which sectors, nor how this relates to the current job shortages already noticeable in Flanders. A regionalisation of the labor market policy, a demand of the Flemish political parties, might have avoided such apparent contradictions. Unemployment benefit entitlements will continue indefinitely, but decline with the length

of the unemployment period, a significant change.

Agreeing to disagree

¶5. The most important aspect of the Leterme government agreement are the goals and objectives on which no agreement could be found:

- Nuclear moratorium: whereas Verhofstadt III had agreed to keep some nuclear power plants open beyond 2015, the new coalition has ordered yet another academic feasibility study to buy some extra time.
- Further possible private investment into the Belgian Postal group and telecom operator Belgacom: blocked by the francophone socialists who fear massive job losses after further privatizations.
- Notional interest: this generous fiscal policy aimed at attracting FDI will remain in place, but a task force will look into possible abuses of the measure by Belgian public sector entities
- The liberal parties had asked to abolish the capital gains tax on bonds, but were again blocked in this by the francophone socialists
- Pensions: instead of increasing the legal pension age from 65 to 68 (as is the case in Germany), the Leterme government intends to discourage early retirements by other unspecified means.

Policy contradictions

¶6. Econoff contacted professor Paul De Grauwe(Catholic University of Leuven), a former Flemish liberal senator, who was very critical of the Leterme government agreement. De Grauwe said it is unclear to him how the new government will mesh increased social benefits with further tax cuts, while simultaneously achieving a budget surplus. He also said he feared that on the budget front, the plans to generate a surplus and further reduce the federal debt were too vague and unambitious and clearly insufficient to cope with the future 'graying of Belgium'. De Grauwe also took issue with the wording of the text on FDI, where it said that more FDI should be 'lured' to Belgium, as opposed to the more neutral 'attracted'.

Comment:

¶7. The Leterme government agreement makes clear that there are still major disagreements among the coalition partners. This is hardly surprising, considering the diverse ideological priorities of these five different political parties. Real tough decisions are likely to be postponed until after the regional elections of 2009. From that perspective, the increase of social spending by then is clearly aimed at the 2009 election. The lack of specifics on how key policy objectives (budget, taxes, employment) will be achieved seems to be a sure recipe for continuous federal infighting. At the same time, the Leterme government seems to be ignoring the impact of pressing economic realities from the outside world such as concerns about energy and electricity supplies, raising commodity prices, the impact of financial crises and the effects of economic migration. When it returns from a two week Easter holiday, the GOB will quickly need to get to work. End comment.
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